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Other information in documents containing audited financial statements; Statement on auditing standards, 008

American Institute of Certified Public Accountants. Auditing Standards Executive Committee

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Other Information in Documents Containing Audited Financial Statements

1. An entity may publish various documents that contain information (hereinafter, "other information") in addition to audited financial statements and the independent auditor's report thereon. This Statement provides guidance for the auditor's consideration of other information included in such documents.

2. This Statement is applicable only to other information contained in (a) annual reports to holders of securities or beneficial interests, annual reports of organizations for charitable or philanthropic purposes distributed to the public, and annual reports filed with regulatory authorities under the Securities Exchange Act of 1934 or (b) other documents to which the auditor, at the client's request, devotes attention.

3. This Statement is not applicable when the financial statements and report appear in a registration statement filed under the Securities Act of 1933. The auditor's procedures with respect to 1933 Act filings are unaltered by this Statement (see SAS No. 1, sections 630 and 710). Also, this Statement is not applicable to other information on which the auditor is engaged to express an opinion.¹ The guidance applicable to examining and reporting on certain information other than financial statements intended to be presented in con-

¹ Mere reading of other information is an inadequate basis for expressing an opinion on that information.

formity with generally accepted accounting principles is unaltered by this Statement (see SAS No. 1, sections 610 and 620).

4. Other information in a document may be relevant to an independent auditor's examination or to the continuing propriety of his report. The auditor's responsibility with respect to information in a document does not extend beyond the financial information identified in his report, and the auditor has no obligation to perform any procedures to corroborate other information contained in a document. However, he should read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements.² If the auditor concludes that there is a material inconsistency, he should determine whether the financial statements, his report, or both require revision. If he concludes that they do not require revision, he should request the client to revise the other information. If the other information is not revised to eliminate the material inconsistency, he should consider other actions such as revising his report to include an explanatory paragraph describing the material inconsistency, withholding the use of his report in the document, and withdrawing from the engagement. The action he takes will depend on the particular circumstances and the significance of the inconsistency in the other information.

5. If, while reading the other information for the reasons set forth in paragraph 4, the auditor becomes aware of information that he believes is a material misstatement of fact that is not a material inconsistency as described in paragraph 4, he should discuss the matter with the client. In connection with this discussion, the auditor should consider that he may not have the expertise to assess the validity of the statement, that there may be no standards by which to assess its presentation, and that there may be valid differences of judgment or opinion. If the auditor concludes he has a valid basis for concern he should propose that the client consult with

² In fulfilling his responsibility under this Statement, a principal auditor may also request the other auditor or auditors involved in the engagement to read the other information. If a predecessor auditor's report appears in a document to which this Statement applies, he should read the other information for the reasons described in this paragraph.

some other party whose advice might be useful to the client, such as the client's legal counsel.

6. If, after discussing the matter as described in paragraph 5, the auditor concludes that a material misstatement of fact remains, the action he takes will depend on his judgment in the particular circumstances. He should consider steps such as notifying his client in writing of his views concerning the information and consulting his legal counsel as to further appropriate action in the circumstances.

The Statement entitled "Other Information in Documents Containing Audited Financial Statements" was adopted by the assenting votes of seventeen members of the Committee, of whom one, Mr. Nelson, assented with a qualification. Messrs. Krebs, Lamb, Robinson and Silverman dissented.

Mr. Nelson approves issuance of this Statement, but qualifies his assent because he believes that, in view of the standards set forth in paragraphs 4, 5, and 6 which have not been heretofore uniformly applied, an effective date should be specified.

Mr. Krebs is aware that the Committee does not intend to suggest that the inclusion of audited financial statements in a document containing other information should be read as conveying an implied, albeit limited, assurance by the auditor with respect to such other information or responsibility for events subsequent to the date of his report upon the audited financial statements. He dissents to the issuance of this Statement because he believes it is ambiguous with respect to these points and may be misunderstood by persons not conversant with the basic functions and disciplines of accountancy and auditing.

Messrs. Lamb, Robinson, and Silverman dissent to the issuance of this Statement because they believe it establishes a reporting responsibility for auditors with respect to certain types of "other information." They disapprove of the suggestion, in paragraph 4, that an auditor consider whether to include, in his report on audited financial statements, an explanatory paragraph describing a material inconsistency between "other information" and the audited financial statements. They recognize that the existence of such an inconsistency may appropriately cause an auditor to request a client to revise the "other information." On the other hand, they concur with the view, expressed in paragraph 4, that "the auditor's responsibility with respect to information in a document does not extend

beyond the financial information identified in his report"; in their opinion, the suggestion in paragraph 4 that the auditor modify his report is inconsistent with that view. Also, in their opinion, because of that suggestion the absence of an explanatory paragraph such as is contemplated by paragraph 4 would encourage readers to draw unwarranted conclusions about the extent and significance of an auditor's work with respect to "other information."

Mr. Silverman also believes that when revisions are required in the "other information" the guidance contained in paragraph 6 should be applicable to both the material inconsistency described in paragraph 4 and the material misstatement of fact that is not a material inconsistency described in paragraph 5. The suggestions in paragraph 4 that the auditor withdraw from the engagement or withhold the use of his report in the document are not appropriate unless, under the particular circumstances, they are considered preferable to all other alternatives considered as a result of the procedures recommended in paragraph 6.

Auditing Standards Executive Committee (1974-1975)

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Note: *Statements on Auditing Standards* are issued by the Auditing Standards Executive Committee, the senior technical committee of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Ethics requires adherence to the applicable generally accepted auditing standards promulgated by the Institute. It recognizes *Statements on Auditing Standards* as interpretations of generally accepted auditing standards, and requires that members be prepared to justify departures from such *Statements*.